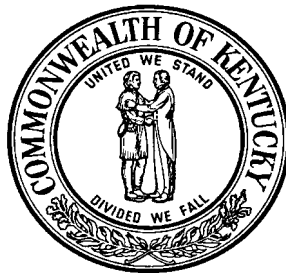


**REPORT OF THE AUDIT OF THE  
MORGAN COUNTY  
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period  
June 1, 2008 Through May 22, 2009**



**CRIT LUALLEN  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**MORGAN COUNTY**  
**SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period**  
**June 1, 2008 Through May 22, 2009**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for the Morgan County Sheriff for the period June 1, 2008 through May 22, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The Sheriff collected taxes of \$3,090,803 for the districts for 2008 taxes, retaining commissions of \$127,709 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,943,785 to the districts for 2008 taxes. Taxes of \$17,961 are due to the districts from the Sheriff.

**Report Comments:**

- The Sheriff Should Distribute 10% Add-On Fees As Required
- The Sheriff Should Distribute Interest Earnings As Required
- The Sheriff's Office Lacks Adequate Segregation Of Duties

**Deposits:**

The Sheriff's deposits as of December 8, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$590,056

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.



## CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT .....	1
SHERIFF'S SETTLEMENT - 2008 TAXES.....	3
NOTES TO FINANCIAL STATEMENT .....	5
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	11
COMMENTS AND RECOMMENDATIONS .....	15





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Tim Conley, Morgan County Judge/Executive

Honorable Mickey Whitt, Morgan County Sheriff

Members of the Morgan County Fiscal Court

Independent Auditor's Report

We have audited the Morgan County Sheriff's Settlement - 2008 Taxes for the period June 1, 2008 through May 22, 2009. This tax settlement is the responsibility of the Morgan County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Morgan County Sheriff's taxes charged, credited, and paid for the period June 1, 2008 through May 22, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 27, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky  
Honorable Steven L. Beshear, Governor  
Jonathan Miller, Secretary  
Finance and Administration Cabinet  
Honorable Tim Conley, Morgan County Judge/Executive  
Honorable Mickey Whitt, Morgan County Sheriff  
Members of the Morgan County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff Should Distribute 10% Add-On Fees As Required
- The Sheriff Should Distribute Interest Earnings As Required
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

January 27, 2010

MORGAN COUNTY  
MICKEY WHITT, SHERIFF  
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period June 1, 2008 Through May 22, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 137,785	\$ 751,556	\$ 1,177,437	\$ 305,633
Tangible Personal Property	20,082	114,142	171,614	143,383
Fire Protection	3,521			
Increases Through Exonerations	107	585	916	238
Franchise Taxes	19,679	111,893	167,611	
Unmined Coal - 2007 Taxes	208	1,038	1,716	461
Unmined Coal - 2008 Taxes	1,706	9,305	14,579	3,784
Gas Property Taxes	1,713	9,344	14,639	3,800
Oil and Gas Property Taxes	226	1,235	1,935	502
Limestone, Sand and Mineral Reserves	128	700	1,096	285
Bank Franchises	32,436			
Penalties	2,799	14,562	23,522	10,747
Adjusted to Sheriff's Receipt	(58)	10	(3)	(3)
Gross Chargeable to Sheriff	220,332	1,014,370	1,575,062	468,830
<u>Credits</u>				
Exonerations	2,033	11,090	17,374	4,514
Discounts	2,938	12,334	19,162	5,356
Delinquents:				
Real Estate	6,217	33,355	52,256	13,564
Tangible Personal Property	124	706	1,062	450
Uncollected Omitted Gas	108	590	924	240
Franchise Taxes	229	1,325	1,840	
Total Credits	11,649	59,400	92,618	24,124
Taxes Collected	208,683	954,970	1,482,444	444,706
Less: Commissions *	9,157	40,067	59,298	19,187
Taxes Due	199,526	914,903	1,423,146	425,519
Taxes Paid	198,192	908,534	1,411,892	425,167
Refunds (Current and Prior Year)	63	419	514	352
Due Districts		**		
as of Completion of Audit	\$ 1,271	\$ 5,950	\$ 10,740	\$ 0

\* and \*\* See Next Page

The accompanying notes are an integral part of this financial statement.

MORGAN COUNTY  
 MICKEY WHITT, SHERIFF  
 SHERIFF'S SETTLEMENT - 2009 TAXES  
 For The Period June 1, 2008 Through May 22, 2009  
 (Continued)

\* Commissions:

10% on	\$	10,000
4.25% on	\$	1,390,787
4% on	\$	1,690,016

\*\* Special Taxing Districts:

Library District	\$	1,265
Health District		1,072
Extension District		2,649
Soil Conservation District		58
Ambulance District		906
		<hr/>

Due Districts	\$	<u>5,950</u>
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MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENT

May 22, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Morgan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 22, 2009  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 22, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 8, 2008 public funds were exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$590,056

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 30, 2008 through May 22, 2009.

B. Unmined Coal Taxes - 2007

The tangible property tax assessments were levied as of January 1, 2007. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 18, 2008 through September 22, 2008.

C. Unmined Coal Taxes - 2008

The tangible property tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 11, 2009 through August 24, 2009.

Note 4. Interest Income

The Morgan County Sheriff earned \$1,142 as interest income on 2008 taxes. As of January 27, 2010, the Sheriff owed \$526 in interest to the school district and \$616 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Morgan County Sheriff collected \$42,033 of 10% add-on fees allowed by KRS 134.430(3). As of January 27, 2010, the Sheriff owed \$34,432 in 10% add-on fees to his fee account.

MORGAN COUNTY  
NOTES TO FINANCIAL STATEMENT  
May 22, 2009  
(Continued)

Note 6. Advertising Costs And Fees

The Morgan County Sheriff collected \$470 of advertising costs and \$470 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). As of January 27, 2010, the Sheriff owed \$470 in advertising costs to the county and \$470 in advertising fees to his fee account.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tim Conley, Morgan County Judge/Executive  
Honorable Mickey Whitt, Morgan County Sheriff  
Members of the Morgan County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Morgan County Sheriff's Settlement - 2008 Taxes for the period June 1, 2008 through May 22, 2009, and have issued our report thereon dated January 27, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Morgan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Morgan County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Morgan County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Morgan County Sheriff's Settlement - 2008 Taxes for the period June 1, 2008 through May 22, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Distribute 10% Add-On Fees As Required
- The Sheriff Should Distribute Interest Earnings As Required

The Morgan County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Morgan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

January 27, 2010

## COMMENTS AND RECOMMENDATIONS



MORGAN COUNTY  
MICKEY WHITT, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period June 1, 2008 Through May 22, 2009

STATE LAWS AND REGULATIONS:

The Sheriff Should Distribute 10% Add-On Fees As Required

The Sheriff collected \$42,033 of 10% add-on fees during 2008 tax collections as allowed by KRS 134.430(3). These 10% add-on fees were collected during calendar year 2009 and should have been used to benefit the 2009 fee account. KRS 134.300(1) requires the Sheriff to report, by the tenth day of each month, the amount of taxes, fines, forfeitures, or other monies collected by him for the preceding month. KRS 134.300(2) requires the Sheriff to pay, at the time of making his month end reports, all funds belonging to others. The Sheriff paid \$7,601 of 10% add-on fees to the 2009 Fee Account. An additional \$34,432 of 10% add-on fees are due the Sheriff's 2009 fee account. Since calendar year 2009 is over, failure to pay these 10% add-on fees in a timely manner prevented the Sheriff's from using these funds. We recommend the Sheriff pay from the 2008 tax account an additional \$34,432 to the 2009 fee account, which should then be turned over to the fiscal court as additional 2009 excess fees. We recommend the Sheriff distribute 10% add-on fees in accordance with KRS 134.430 and KRS 134.300.

*Sheriff's Response: All add-on fees are being distributed as required to the appropriate accounts from the tax account. All add-on fees collected are being distributed.*

The Sheriff Should Distribute Interest Earnings As Required

The Sheriff earned \$1,142 of interest in his 2008 tax account. KRS 134.140(3)(b) states, "At the time of his monthly distribution of taxes to the district board of education, the Sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes." The Sheriff is allowed to charge up to 4% of the investment income as a fee for administrative expenses. According to KRS 134.140(3)(d), the balance of investment income should be paid to the Sheriff's operating account. For 2008 taxes, the Sheriff did not distribute any interest earnings to the school or to his operating account. Based on the amount of interest earned, the Sheriff owes \$526 to the school district and \$616 to the 2009 fee account. We recommend the Sheriff distribute interest earned on tax collections in accordance with KRS 134.140(3)(b) and KRS 134.140(3)(d).

*Sheriff's Response: All interest earned will be distributed.*

MORGAN COUNTY  
MICKEY WHITT, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period June 1, 2008 Through May 22, 2009  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office lacks adequate segregation of duties due to the responsibilities of receiving, depositing, disbursing, recording, and reconciling cash being delegated to the same individual. The functions of receiving, depositing, disbursing, recording, and reconciling cash should be separated whenever possible in order to decrease the risk that the misappropriation of assets and/or inaccurate financial reporting will occur and go undetected. Since only one person performs most of these functions, there is no assurance that financial transactions are accurate, complete, and free of errors/misstatements. We recommend the Sheriff segregate the duties of receiving, depositing, disbursing, recording and reconciling cash or implement and document compensating controls to offset this control deficiency. Examples of compensating controls include: the Sheriff comparing the daily checkout sheet to batched tax bills, comparing the daily checkout sheet to the receipts ledger and the bank deposit, reviewing bank reconciliations for accuracy, performing surprise cash counts, and reviewing all financial reports. The Sheriff should document his review process by initialing reports and supporting documentation.

*Sheriff's Response: We have a small office staff with a limited budget for hiring. We have developed procedures that ensure that all accounting and financial procedures are executed efficiently and appropriately.*

